

full cost of the loop. Under a TSLRIC standard, local service rates in the vast majority of areas are compensatory. For those subscriber lines that are not compensatory, the Act requires that they be subsidized in a competitively neutral manner by all telecommunications service providers, not just IXCs.

LOW-INCOME CONSUMERS

Preamble: Universal service reform, as proposed by AT&T, is designed to enhance the affordability of basic telephone service for those who are economically disadvantaged, while supporting local exchange competition. In advocating universal service reform, AT&T proposes a program that will foster universal service in conjunction with impending entry of companies in local exchange markets. The key to this policy is the extension of the principle of "portability" among local service providers of the existing targeted subsidy programs, Lifeline Assistance and Link-Up. Thus, low-income subscribers will also benefit by being able to choose between competitive carriers for their business. On behalf of those subscribers who meet the means test requirements for Lifeline Assistance and Link-Up, the serving carrier will be compensated out of the NUSF.¹⁶

¹⁶ Toll restrictions, such as blocking, should not be included in the definition of core services entitled to NUSF support, because they improperly focus on one set of services on which consumers are as (or more) likely to spend beyond their means, while ignoring others (e.g.,

Telecommunications policy will have advanced little if we as an industry are successful at creating an elaborate broadband video entertainment network for some customers while basic affordable telephone service remains out of reach of many others. Moreover, if the costs of providing telecommunications services are properly allocated, and other consumer safeguards are put in place, there is no reason that appropriate universal service goals cannot be achieved.

(footnote continued from previous page)

CLASS services). As a matter of business judgment, reduced deposits should be available to low-income consumers, who voluntarily sign up for toll restrictions because they will then pose a lesser potential credit risk and justify a lower deposit. However, subsidies should not be provided to fund the deposit. (AT&T Comments at 13 n.16).

71. Should the new universal service fund provide support for the Lifeline and Linkup programs, in order to make those subsidies technologically and competitively neutral? If so, should the amount of the lifeline subsidy still be tied, as it is now, to the amount of the subscriber line charge?

The existing Lifeline and Link-Up programs should be consolidated with the other universal service-related subsidies. Given the Act's requirements that all funding for universal service support be explicit, and nondiscriminatory, these programs can easily be continued, with funding, however, provided from a competitively neutral NUSF rather than funded solely by IXC's. Incorporating the Lifeline and Link-Up programs into the NUSF would not preclude those states which deem it necessary from establishing separate state-specific funds with the condition that these funds comport with the parameters outlined in the Act. (AT&T Reply Comments at 21).

ADMINISTRATION OF UNIVERSAL SERVICE SUPPORT

72. Section 254(d) of the 1996 Act provides that the Commission may exempt carriers from contributing to the support of universal service if their contribution would be "de minimis." The conference report indicates that "[t]he conferees intend that this authority would only be used in cases where the administrative cost of collecting contributions from a carrier or carriers would exceed the contribution that carrier would otherwise have to make under the formula for contributions selected by the Commission." What levels of administrative costs should be expected per carrier under the various methods that have been proposed for funding (e.g., gross revenues, revenues net of payments to other carriers, retail revenues, etc.)?

The program for universal service reform proposed by AT&T, funding NUSF from a surcharge on the retail

revenues of all telecommunications carriers, meets the critical test of maintaining competitive neutrality while not imposing undue hardship on any carrier, large or small. The ultimate responsibility for universal service resides with the end-user subscriber and consistent with this premise, no carrier -- regardless of its size -- should be exempt. To do so would, in essence, exempt the customers of small carriers from their obligation thus creating a potential unfair marketing advantage to small, new entrants.

REQUIRED CHANGES TO THE EXISTING UNIVERSAL SERVICE FUND (USF) AND DIAL EQUIPMENT MINUTE (DEM) WEIGHTING MECHANISMS

Universal Service Fund Mechanism

Several modifications to the USF cost computation rules which the Commission has proposed¹ should be implemented immediately to more appropriately target, reduce the size of, and integrate efficiency incentives into the USF mechanism. The changes that should be made include:

- Increase the threshold for receiving USF assistance to 130% of the national average cost per loop, and include a linear scale in the algorithm for LECs with between 50,000 to 100,000 loops.
- Require LECs to calculate the costs and number of loops in a study area based on all loops served by affiliated companies in the same State (i.e., combine study areas within a state).
- Make more rational distinctions between small and large study areas. All Tier 1 LECs should be ineligible for USF subsidy. For non-Tier 1 LECs, the threshold for higher levels of assistance should be changed from 200,000 to 100,000 loops.²
- Exclude administrative costs from the loop costs upon which high cost assistance is based

¹ Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, CC Docket No. 80-286, Notice of Proposed Rulemaking and Notice of Inquiry, FCC 95-282, released July 13, 1995 ("NPRM").

² Based on the Commission's clarification in the recently announced rules to implement the Section 251 interconnection provisions of the 1996 Act (see FCC News, Report No. DC 96-75, released August 1, 1996, reporting action in CC Docket 96-98), AT&T now believes that high cost fund assistance should be limited to those non-Tier 1 LECs (referred to in the preceding AT&T Further Comments in CC Docket 96-45, dated August 2, 1996, as "rural" LECs) that, at the holding company level, have fewer than 2% of the nation's access lines

- Eliminate assistance to LECs receiving less than \$1.00 in USF subsidy per line per month.
- Adopt an indexed cap on the growth of the USF after the fund has been resized as a result of the above changes

DEM Weighting Mechanism

AT&T urges the elimination of the DEM weighting subsidy. One of the vital principles guiding the Commission's actions in this proceeding is that "assistance should be properly targeted, so that support is given only to those service providers or users who need assistance to maintain local service." NPRM, para. 6. However, the current DEM weighting mechanism has no economically sound cost-based or need-based eligibility requirement. As the NPRM (para. 9) observes, "[i]t is specifically provided outside of, and unrelated to, the USF; unlike the USF, companies benefiting from the DEM weighting need not show that they have above average costs "

Should the Commission decide that some level of DEM weighting subsidy should continue, AT&T recommends a model that employs a cost-based measurement containing a threshold for high cost LECs to become eligible to receive a DEM weighting subsidy. The new cost-based DEM weighting mechanism should be based upon:

The existing algorithm for calculating the revenue requirement for the Universal Service Fund, modified to (a) exclude the administrative costs (Accounts 6120, 6710 and 6720) that were identified by the Commission in NPRM paragraph 35; (b) establish a cost threshold of 130% of the national average switching cost per loop to be consistent with the Commission's proposal to raise the threshold for the receipt of USF support from 115% to 130% of the national average as described in paragraph 39 of the NPRM; and (c) establish a linear sliding scale for LECs with between 10,000 and 50,000 access lines as proposed by the Commission in paragraph 15 and footnote 25 of the NPRM.

The above algorithm is appropriate because it is understood by the industry and used for calculating the national average cost per loop for the USF. In general, the new DEM weighting method requires the substitution of the loop investments with Central Office Equipment, separations Category 3 Local Switching investments (Account 2210). Lines of the USF input worksheet that normally contain the Circuit Equipment investment in separations Category 4.13 should be changed to include Category 3 Local Switching investment. Lines on

the USF input worksheet that normally contain Cable & Wire separations Category 1 amounts should be made zero. Also, any Cable & Wire amounts that were used to apportion other accounts, such as Material & Supplies, should be made zero.

CERTIFICATE OF SERVICE

I, Diane Danyo, do hereby certify that a true copy of the foregoing Further Comments of AT&T Corp. was served this 2nd day of August, 1996, by United States mail, first class, postage prepaid, upon the parties listed on the attached Service List.


Diane Danyo

SERVICE LIST
(CC Docket 96-45)

The Honorable Reed E. Hundt, Chairman
Federal Communications Commission
1919 M St., NW -- Rm. 814
Washington, DC 20554

The Honorable Rachelle B. Chong, Commissioner
Federal Communications Commission
1919 M St., NW -- Rm. 844
Washington, DC 20554

The Honorable Susan Ness, Commissioner
Federal Communications Commission
1919 M St., NW -- Rm. 832
Washington, DC 20554

The Honorable Julia Johnson, Commissioner
Florida Public Service Commission
Capital Circle Office Ctr.
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

The Honorable Kenneth McClure, Vice Chairman
Missouri Public Service Commission
301 W. High St., Suite 530
Jefferson City, MO 65102

The Honorable Sharon L. Nelson, Chairman
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

The Honorable Laska Schoenfelder, Commissioner
South Dakota Public Utilities Commission
500 E. Capital Ave.
Pierre, SD 57501

Martha S. Hogerty
Public Counsel for the State of Missouri
P.O. Box 7800
Harry S. Truman Bldg., Rm 250
Jefferson City, MO 65102

Deborah Dupont, Federal Staff Chair
Federal Communications Commission
2000 L St., NW, Suite 257
Washington, DC 20036

Paul E. Pederson, State Staff Chair
Missouri Public Service Commission
P.O. Box 360
Truman State Office Bldg.
Jefferson City, MO 65102

Eileen Benner
Idaho Public Utilities Commission
P.O. Box 83720
Boise, ID 83720-0074

Charles Bolle
South Dakota Public Utilities Commission
State Capital, 500 E. Capital Ave.
Pierre, SD 57501-5070

Lorraine Kenyon
Alaska Public Utilities Commission
1016 W. Sixth Ave., Suite 400
Anchorage, AK 99501

Debra M. Kriete
Pennsylvania Public Utilities Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Mark Long
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Bldg.
Tallahassee, FL 32399-0850

Samuel Loudenslager
Arkansas Public Service Commission
P.O. Box 400
Little Rock, AR 72203-0400

Sandra Makeeff
Iowa Utilities Board
Lucas State Office Bldg.
Des Moines, IA 50319

Philip F. McClelland
Pennsylvania Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Michael A. McRae
D.C. Office of the People's Counsel
1133 15th St., NW -- Suite 500
Washington, DC 20005

Rafi Mohammed
Federal Communications Commission
2000 L St., NW, Suite 812
Washington, DC 20036

Terry Monroe
New York Public Service Commission
Three Empire Plaza
Albany, NY 12223

Andrew Mulitz
Federal Communications Commission
2000 L St., NW, Suite 257
Washington, DC 20036

Mark Nadel
Federal Communications Commission
1919 M St., NW, Rm. 542
Washington, DC 20554

Lee Palagyi
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Jeanine Poltronieri
Federal Communications Commission
2000 L St., NW, Suite 257
Washington, DC 20036

James Bradford Ramsay
National Assn. of Regulatory Utility Commissioners
1201 Constitution Ave., NW
Washington, DC 20423

Jonathan Reel
Federal Communications Commission
2000 L St., NW, Suite 257
Washington, DC 20036

Brian Roberts
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102-3298

Gary Seigel
Federal Communications Commission
2000 L St., NW, Suite 812
Washington, DC 20036

Pamela Szymczak
Federal Communications Commission
2000 L St., NW, Suite 257
Washington, DC 20036

Whiting Thayer
Federal Communications Commission
2000 L St., NW, Suite 812
Washington, DC 20036

Deborah S. Waldbaum
Colorado Office of Consumer Counsel
1580 Logan St., Suite 610
Denver, CO 80203

Alex Belinfante
Federal Communications Commission
1919 M St., NW
Washington, DC 20554

Larry Povich
Federal Communications Commission
1919 M St., NW
Washington, DC 20554